

Message Text

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DEPARTMENT PASS TREASURY, CEA AND FRB

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: PRESS INTERVIEW PROVIDES CHANCELLOR SCHMIDT'S
VIEWS ON ECONOMIC THEMES.

BEGIN UNCLASSIFIED

1. SUMMARY. CHANCELLOR SCHMIDT, IN A NEWSPAPER INTER-
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VIEW, GAVE HIS VIEWS ON THE WORLD ECONOMY AND ITS

RECESSION, WHICH HE SEES AS THE MAJOR DANGER FOR THE WEST. STRESSED IS THE DEPENDENCE OF OVERCOMING THE ECONOMIC PROBLEMS ON THE COORDINATION AND COOPERATION OF ECONOMIC POLICIES. WHILE THE U.S. GETS A PASSING MARK IN THIS, JAPAN, ITALY AND ENGLAND DO NOT. THE U.S. THOUGH IS NOT GRADED HIGH FOR ITS ROLE IN THE CONTROL OF INFLATION. THE MULTINATIONAL CORPORATE BOARDS IN NEW YORK ARE GIVEN A SORT OF GNOMES-IN-ZURICH QUALITY IN THEIR INFLUENCE ON DEVELOPMENTS IN OTHER PARTS OF THE WORLD. DECLINING EXPORTS WERE BEMOANED. END SUMMARY.

2. PERTINENT EXCERPTS, WHICH ARE PARAPHRASED, FROM CHANCELLOR HELMUT SCHMIDT'S JUNE 24 EXCLUSIVE INTERVIEW ON ECONOMIC THEMES WITH THE MUNICH NEWSPAPER, SUEDE DEUTSCHE ZEITUNG, FOLLOW:

A. THERE PROBABLY NEVER AGAIN WILL BE AUTONOMOUS BUSINESS CYCLE DEVELOPMENTS ON INDIVIDUAL CONTINENTS, RATHER THE SYNCHRONOUS DEVELOPMENT OF INFLATIONARY AND DEFLATIONARY PROCESSES WILL BE PERMANENT. ATTITUDES TOWARDS FUTURE BUSINESS POLICIES DEVELOPED IN THE BOARD ROOM OF AN INTERNATIONAL COMPANY IN NEW YORK YESTERDAY ARE BEING FELT TODAY IN DUESSELDORF AND FRANKFURT. NATIONAL COUNTERCYCLICAL PROGRAMS PRESENTLY AND IN THE FUTURE WILL HAVE ONLY LIMITED EFFECTS; THERE ARE EXCEPTIONS, SUCH AS THE UNITED STATES, BUT GERMANY IS NOT ONE OF THEM.

B. THE SIMULTANEITY OF PARALLEL OR MUTUALLY SUPPORTING ECONOMIC POLICIES IN THE MOST IMPORTANT WESTERN INDUSTRIALIZED STATES IS THE MOST IMPORTANT REQUISITE FOR OVERCOMING THE WORLD-WIDE RECESSION. ECONOMIC POLICIES TO OVERCOME WORLD INFLATION HAVE FAILED WITH RESPECT TO SIMULTANEITY AND EQUAL DIRECTION. ONLY A FEW EUROPEAN COUNTRIES HAVE FOLLOWED THE GERMAN EXAMPLE OF STABILITY-ORIENTED POLICIES. OTHER COUNTRIES, ESPECIALLY THE UNITED STATES, JAPAN, ITALY AND ENGLAND HAVE AGGRAVATED THE INFLATION INITIALLY ORIGINATING IN AMERICA. THIS IS THE BACKGROUND AGAINST WHICH TODAY'S RECESSION TAKES PLACE.

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C. THE COINCIDENCE OF INFLATION AND THE UNCERTAINTY OVER WORLD TRADE RESULTING FROM THE DISCONTINUATION OF FIXED EXCHANGE RATES, AS WELL AS QUADRUPLING OF OIL PRICES NOT ONLY LED TO THE CUMULATIVE IMPACT OF THESE THREE EVENTS BUT TO THEIR MUTUAL INTENSIFICATION. THE MOST IMPORTANT THING IS TO COME TO UNIFORM IDEAS IN THESE THREE FIELDS AND TO PURSUE PARALLEL OR COMPLEMENTARY POLICIES. I HAVE EXPLAINED IN DETAIL THE

DANGERS STEMMING FROM THE ECONOMIC SITUATION IN THE
WORLD. IN TWO NATO SUMMIT MEETINGS I HAVE NOT TALKED
ABOUT DEFENSE BUT ABOUT THE WORLD-WIDE ECONOMIC
RECESSION AS THE REAL DANGER FOR THE WEST.

D. IN BILATERAL DISCUSSIONS, ESPECIALLY WITH
AMERICA AND JAPAN, AND IN MULTILATERAL TALKS WITHIN
THE EC, WE HAVE TRIED TO COORDINATE OUR POLICIES VIS-
A-VIS THE COUNTRIES SUPPLYING RAW MATERIALS AND THE
POOR DEVELOPING COUNTRIES AS WELL, AND ESPECIALLY IN
THE MATTER OF OUR MONETARY FISCAL AND ECONOMIC POLICIES.
VIS-A-VIS THE U.S. THIS COORDINATION HAS SUFFICED. THE
SAME APPLIES TO FRANCE AND THE PARTICIPANTS IN THE
"SNAKE" BUT NOT TO JAPAN, ITALY AND ENGLAND.

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E. INFLATION RATES ARE DECLINING IN MOST INDUSTRIALIZED COUNTRIES ALTHOUGH NOT IN RESPONSE TO STABILITY-ORIENTED POLICIES BUT RATHER ONLY ON ACCOUNT OF RECESSION. IN EUROPE UNEMPLOYMENT HAS RISEN BECAUSE OF THE DEPENDENCE OF THESE ECONOMIES ON EXPORTS. FOR EXAMPLE, GERMAN EXPORTS TO THE UNITED STATES IN APRIL
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FELL SHORT OF LAST YEAR'S LEVEL BY 46 PERCENT NOMINALLY.

F. SALES AND PROFIT EXPECTATIONS OF INDUSTRIAL FIRMS IN THE WORLD ARE RESTRAINED BY MANY FACTORS AND CONSEQUENTLY INVESTMENT PROPENSITY IS LAGGING. DEPENDING ON THE SITUATION IN THE INDIVIDUAL ECONOMIES, IT WILL BE NECESSARY TO REVIVE CAPITAL OUTLAYS FOR PRODUCTIVE INVESTMENTS. TO THIS END, NOT ONLY ECONOMIC, BUT ALSO, AND PRIMARILY, POLITICAL AND PSYCHOLOGICAL TOOLS MUST BE EMPLOYED. AS FAR AS PSYCHOLOGY IS CONCERNED, NEW YORK IS THE CAPITAL OF WORLD TRADE. AS LONG AS AMERICAN PESSIMISM REGARDING BUSINESS TRENDS IS AS PRONOUNCED AS IN THE PAST FEW MONTHS, A TURNAROUND SEEMS ALMOST IMPOSSIBLE. THIS IS WHY DEVELOPMENTS DEPEND UPON THE U.S., IRRESPECTIVE OF THE FACT THAT IT (THE U.S.) AS FAR AS MERCHANDISE TRADE IS CONCERNED PLAYS ONLY A SLIGHTLY LARGER ROLE AS A WORLD TRADE PARTNER THAN DOES THE FRG.

G. THE DEVELOPMENT OF EMPLOYMENT AND GNP (IN THE FRG) WILL ESSENTIALLY DEPEND UPON THE DEMAND FOR GERMAN EXPORT GOODS. EVEN AS LATE AS APRIL NOBODY IN THE WORLD HAD FULLY RECOGNIZED THE DEPTH OF THIS WORLD-WIDE RECESSION. I HAVE NOT SEEN ANY FORECASTS REGARDING WORLD-WIDE ECONOMIC TRENDS SINCE THEN, BUT I DO NOT CONFIDE IN THEM, SINCE WE HAVE ALL ERRED IN THE PAST (IN FORECASTING). GIVEN THE UNCLEAR ECONOMIC SITUATION IN THE WORLD, I ESPECIALLY WOULD NOT WANT TO MAKE A PROGNOSIS AT THIS POINT ON WHEN THE UPSWING IN GERMANY WILL TAKE PLACE.

H. IT IS POSSIBLE TO PARTIALLY STEM THE IMPACT
OF THE WORLD RECESSION ON THE GERMAN ECONOMY, BUT ONLY
PARTIALLY, AND IN THIS WE HAVE SUCCEEDED TO A
CONSIDERABLE EXTENT. BY THE END OF JULY WHEN THE
IMPACT OF THE INVESTMENT BONUS CAN BE JUDGED, WE CAN
STATISTICALLY MEASURE TO WHAT EXTENT WE HAVE SUCCEEDED.
THE BUDGETARY DEFICIT IN THE FRG DOES NOT CAUSE ME ANY
WORRIES FOR 1975. ONLY AFTER THE UPTURN IS IN FULL
SWING AND PRIVATE SECTOR DEMANDS ON THE CAPITAL MARKET
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INCREASE WILL THE FINANCIAL SITUATION OF THE PUBLIC
SECTOR BE REORIENTED. END UNCLASSIFIED.

3. COMMENT. IN STRESSING THE INTERNATIONAL ECONOMIC
FORCES CONTRIBUTING TO THE RECESSION AND UNEMPLOYMENT
AFFLICTING GERMANY, THE CHANCELLOR DEFLECTS THE BLAME
FOR THE SITUATION ON OTHERS. HE IMPLIES THAT HAVING
DONE ALL HE COULD, IF THINGS ARE NOT GETTING ANY
BETTER, IT IS NOT HIS FAULT. HAVING EARLIER IN THE
YEAR PREDICTED THE ARRIVAL OF AN UPSWING BY EARLY
SUMMER, AND THERE CURRENTLY BEING NO SIGN OF IT ON THE
HORIZON, HE PROBABLY FELT SUCH A PUBLIC EXPOSITION IN
ORDER. (RE PARA 2E ABOVE, OUR FIGURES SHOW 36 NOT 46
PERCENT DROP.)
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